



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
CITY OF GUTHRIE**

Fiscal Year Ended June 30, 1998

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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APPENDIX A:

CERTIFICATION OF COMPLIANCE – LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM



Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Sarah Jane Schaaf, Secretary, Revenue Cabinet
Honorable Scott Marshall, Mayor
Members of the Guthrie City Council

Independent Auditor's Report

We have audited the accompanying general purpose financial statements of the City of Guthrie, Kentucky, as of and for the year ended June 30, 1998. These general purpose financial statements are the responsibility of the City of Guthrie's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Guthrie as of June 30, 1998, and the results of its operations and cash flows of its proprietary and similar trust fund types for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements of the City of Guthrie taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

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To the People of Kentucky
Honorable Paul E. Patton, Governor
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Honorable Scott Marshall, Mayor
Members of the Guthrie City Council

Based on our previous report, total misappropriated funds for fiscal years 1997 and 1998 was \$69,409. The former clerk has been relieved of her duties, entered into a plea agreement, and made restitution as required by the Todd Circuit Court.

Based on the results of our audit, we present a schedule of Comments and Recommendations, included herein, which discusses the following areas of noncompliance:

- The City Should Have Required Depository Institutions To Pledge Additional Securities Of \$143,270 As Collateral And Enter Into A Written Agreement To Protect Deposits
- The City Failed To Maintain Adequate Controls To Safeguard Assets
- The City Should Follow Proper Bidding Procedures
- The City Should Discontinue The Practice Of Making Loans To Employees
- The City Should Reimburse The Municipal Aid Fund For General Operating Expenses
- The City Should File The Uniform Financial Information Report In A Timely Manner
- The City Should Maintain Proper Accounting Records That Will Produce A Complete Set Of Financial Statements
- The City Should Improve Its Policies And Procedures To Improve Controls Over The City's Operations

In accordance with Government Auditing Standards, we have also issued our report dated May 14, 1999, on our consideration of the City of Guthrie's compliance with certain provisions of laws, regulations, contracts, and grants, and internal control over financial reporting.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed –
May 14, 1999

CITY OF GUTHRIE OFFICIALS

Fiscal Year Ended June 30, 1998

Scott Marshall	Mayor
John P. Kirkham	Attorney
Faye Shamblin	Clerk
Willie Castle	Council Person
Jimmy Turner	Council Person
Jim Corns	Council Person
Laurin Morris	Council Person
George Winters	Council Person
Pam Turner	Council Person

FINANCIAL STATEMENTS

CITY OF GUTHRIE
COMBINED BALANCE SHEET – ALL
FUND TYPES AND ACCOUNT GROUPS

June 30, 1998

	<u>Governmental Fund Types</u>		<u>Proprietary Fund</u>	<u>Fiduciary Fund Type</u>	<u>Account Groups</u>	<u>Totals</u>
<u>Assets</u>	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>(Memorandum Only)</u>
Cash and Investments:						
Cash	\$ 7,211	\$	\$ 17,198	\$	\$	\$ 24,409
Investments - Certificates of Deposit	29,474					29,474
Receivables, Net of Allowance For Uncollectibles:						
Delinquent Property Taxes	6,881					6,881
Customer Accounts			34,069			34,069
Accrued Interest			469			469
Other	10,407		3,514			13,921
Receivable - FEMA	868					868
Due From Other Fund	41,853		39,606			81,459
Receivable - Employees	3,178					3,178
Due from Bonding Company	38,482		5,585			44,067
Restricted Assets:						
Cash		10,346		1,467		11,813
Investments				97,832		97,832
Bond Sinking Fund -						
Cash			2,105			2,105
Depreciation Reserve Fund-						
Cash			3,447			3,447
Investments			255,745			255,745
Fixed Assets:						
Land and Easements			870		46,600	47,470
Plant and Lines			4,077,975			4,077,975
Office Furniture and Equipment					21,329	21,329
Other Equipment			68,874		164,936	233,810
Other Buildings					101,430	101,430
Trash Compactor			20,299			20,299
Vehicles					19,604	19,604
Construction in Progress			282,155			282,155
Accumulated Depreciation			(1,813,441)			(1,813,441)
Total Assets	<u>\$ 138,354</u>	<u>\$ 10,346</u>	<u>\$ 2,998,470</u>	<u>\$ 99,299</u>	<u>\$ 353,899</u>	<u>\$ 3,600,368</u>

The accompanying notes are an integral part of the financial statements.

CITY OF GUTHRIE
 COMBINED BALANCE SHEET – ALL FUND
 TYPES AND ACCOUNT GROUPS
 June 30, 1998
 (Continued)

	Governmental Fund Types		Proprietary Fund	Fiduciary Fund Type	Account Groups	Totals
	General	Special Revenue	Enterprise	Trust and Agency	General Fixed Assets	(Memorandum Only)
<u>Liabilities, Equity, and Other Credits</u>						
Liabilities:						
Accounts Payable	\$ 1,357	\$	\$ 218	\$	\$	\$ 1,575
Accrued Payroll	2,461		7,900			10,361
Sales Tax			(2,114)			(2,114)
Due to Other Funds			25,952			25,952
Customer Deposits			59,586			59,586
Current Liabilities Payable from Restricted Assets:						
Revenue Bonds			8,000			8,000
Accrued Interest - Bonds			6,479			6,479
Long-Term Liabilities:						
Kentucky Area Development- Capital Lease			300,000			300,000
Revenue Bonds			303,000			303,000
Total Liabilities	\$ 3,818	\$ 0	\$ 709,021	\$ 0	\$ 0	\$ 712,839
<u>Equity and Other Credits</u>						
Fund Balance:						
Reserved-						
Street Repair	\$	\$ 10,346	\$	\$	\$	\$ 10,346
Cemetery				99,299		99,299
Unreserved-	134,536					134,536
Contributed Capital			2,931,293			2,931,293
Retained Earnings:						
Reserved-						
Bond Sinking Fund			(947,547)			(947,547)
Depreciation Fund			212,914			212,914
Unreserved			92,789			92,789
Investment in General Fixed Assets					353,899	353,899
Total Equity and Other Credits	\$ 134,536	\$ 10,346	\$ 2,289,449	\$ 99,299	\$ 353,899	\$ 2,887,529
Total Liabilities, Equity, and Other Credits	\$ 138,354	\$ 10,346	\$ 2,998,470	\$ 99,299	\$ 353,899	\$ 3,600,368

The accompanying notes are an integral part of the financial statements.

CITY OF GUTHRIE
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES-ALL GOVERNMENTAL FUND TYPES

Fiscal Year Ended June 30, 1998

<u>Revenues:</u>	<u>General</u>	<u>Special Revenue</u>
Property Taxes	\$ 104,307	\$
Payroll Taxes	66,166	
Privilege Licenses	20,109	
Insurance Tax	37,377	
Intergovernmental Revenues	45,821	26,245
Interest Income	1,624	154
Reimbursements	28,123	
Miscellaneous	958	
	<hr/>	<hr/>
Total Revenues	\$ 304,485	\$ 26,399
	<hr/>	<hr/>
<u>Expenditures:</u>		
Current-		
Administration	\$ 171,976	\$
Police Department	147,474	
Street Department	2,850	3,925
Fire Department	10,521	844
Capital Expenditures	28,713	
Loss Due To Misappropriation of Funds	11,610	
	<hr/>	<hr/>
Total Expenditures	\$ 373,144	\$ 4,769
	<hr/>	<hr/>
Excess (Deficit) of Revenues Over Expenditures	\$ (68,659)	\$ 21,630
Other Financing Sources (Uses):		
Due To Other Funds	(3,701)	\$
Due From Other Funds	41,853	
Transfers From Other Funds	120,877	500
Transfers To Other Funds	(16,500)	(37,832)
	<hr/>	<hr/>
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures	\$ 73,870	\$ (15,702)
Fund Balance - July 1, 1997	60,666	26,048
	<hr/>	<hr/>
Fund Balance - June 30, 1998	\$ 134,536	\$ 10,346
	<hr/>	<hr/>

The accompanying notes are an integral part of the financial statements.

CITY OF GUTHRIE
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL GENERAL FUND

Fiscal Year Ended June 30, 1998

<u>Revenues:</u>	<u>Budget</u>	<u>Actual</u>	<u>(Over Budget)</u>
Property Taxes	\$ 228,000	\$ 207,850	\$ 20,150
Licenses and Fees	24,100	20,109	3,991
Receipts From Other			
Governmental Units	45,295	45,821	(526)
Charges for Services	353,100		353,100
Other Revenues	51,000	30,705	20,295
Total Revenues	<u>\$ 701,495</u>	<u>\$ 304,485</u>	<u>\$ 397,010</u>
<u>Expenditures:</u>			
Administration	\$ 102,900	\$ 171,976	\$ (69,076)
Fire Department	7,550	10,521	(2,971)
Police Department	144,174	147,474	(3,300)
Street Department		2,850	(2,850)
Recreation Department	9,410		9,410
Capital Outlay	25,461	28,713	(3,252)
Reserve for Contingencies	25,000		25,000
Loss Due To Misappropriation of Funds		11,610	(11,610)
Total Expenditures	<u>\$ 314,495</u>	<u>\$ 373,144</u>	<u>\$ (58,649)</u>
Excess (Deficit) of Revenues Over Expenditures	\$ 387,000	\$ (68,659)	\$ 455,659
Other Financing Sources (Uses):			
Transfers From Other Funds		120,877	(120,877)
Transfers To Other Funds		(16,500)	16,500
Due To Other Funds		(3,701)	3,701
Due From Other Funds		41,853	(41,853)
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures	\$ 387,000	\$ 73,870	\$ 313,130
Fund Balance - July 1, 1997	<u>0</u>	<u>60,666</u>	<u>(60,666)</u>
Fund Balance - June 30, 1998	<u>\$ 387,000</u>	<u>\$ 134,536</u>	<u>\$ 252,464</u>

The accompanying notes are an integral part of the financial statements.

CITY OF GUTHRIE
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL SPECIAL REVENUE FUND TYPES

Fiscal Year Ended June 30, 1998

			Variance Under Budget (Over Budget)
<u>Revenues:</u>	<u>Budget</u>	<u>Actual</u>	
Interest Income	\$	\$ 154	\$ (154)
State of Kentucky	45,295	26,245	19,050
Total Revenues	\$ 45,295	\$ 26,399	\$ 18,896
<u>Expenditures:</u>			
Current-			
Street Maintenance			
and Paving	\$ 41,000	\$ 3,385	\$ 37,615
Contractual Service	5,000	184	4,816
Equipment Maintenance and Repair	2,000	253	1,747
Equipment Purchases	1,000		1,000
Police Protection		844	(844)
Miscellaneous		103	(103)
Total Expenditures	\$ 49,000	\$ 4,769	\$ 44,231
Excess (Deficit) of Revenues Over Expenditures	\$ (3,705)	\$ 21,630	\$ (25,335)
Other Financing Sources (Uses):			
Transfers From Other Funds		500	(500)
Transfers To Other Funds		(37,832)	37,832
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures	\$ (3,705)	\$ (15,702)	\$ (19,407)
Fund Balance - July 1, 1997	0	26,048	(26,048)
Fund Balance - June 30, 1998	\$ (3,705)	\$ 10,346	\$ 6,641

The accompanying notes are an integral part of the financial statements.

CITY OF GUTHRIE
 COMBINED STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN RETAINED EARNINGS/FUND BALANCE - ALL
PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS

Fiscal Year Ended June 30, 1998

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>
	<u>Enterprise</u>	<u>Trust and Agency Funds</u>
<u>Operating Revenues:</u>		
Charges for Services	\$ 372,901	\$
Tap-on Fees	4,550	
Sale of Bulk Water	972	
Sprinkler Charges	441	
Other Revenue	1,733	
Sanitation Fees	1,998	
Sale of Lots		1,100
Perpetual Care		120
	<hr/>	<hr/>
Total Revenues	\$ 382,595	\$ 1,220
	<hr/>	<hr/>
<u>Operating Expenditures:</u>		
Salaries and Wages	\$ 127,619	\$ 1,502
Employee Benefits	13,142	245
Advertising Expense	467	
Legal and Accounting Services	1,845	
Well Lease	460	
Gas and Oil	5,264	
Office Supplies	4,073	
Dues and Publications	249	
Materials and Supplies	3,669	
Chemicals	5,048	
Lab Testing and Supplies	6,129	
Insurance	102	
Maintenance and Repairs	44,741	180
Landfill Charges/Garbage Disposal	54,292	
Contractual Services	1,233	
Utilities	23,753	
Education/Training	1,298	
Travel	44	
Other Expenses	13,414	
Depreciation	116,905	
	<hr/>	<hr/>
Total Expenditures	\$ 423,747	\$ 1,927
	<hr/>	<hr/>
Operating Revenue	\$ (41,152)	\$ (707)
	<hr/>	<hr/>

The accompanying notes are an integral part of the financial statements.

CITY OF GUTHRIE
 COMBINED STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN RETAINED EARNINGS/FUND BALANCE - ALL PROPRIETARY FUND TYPES
 AND SIMILAR TRUST FUNDS
 Fiscal Year Ended June 30, 1998
 (Continued)

	<u>Fund Types</u>	<u>Fund Types</u>
	<u>Enterprise</u>	<u>Trust and Agency Funds</u>
<u>Non Operating Income (Expenses):</u>		
Interest Revenue	\$ 15,138	\$ 4,929
Interest Expense	<u>(30,457)</u>	
Total Non Operating Income and (Expenses): Before Transfers	<u>\$ (15,319)</u>	<u>\$ 4,929</u>
Other Financing Sources (Uses):		
Transfer to Municipal		
Road Aid Fund	\$ (200)	\$
Net Transfers to City		
General Fund	(68,536)	
Interest Paid From Sewer		
Operating Maintenance Fund	(6,694)	
Transfer From		
Municipal Road Aid Fund	500	
Expenses Paid for		
Other Funds	21,065	
Capital Expenditures		(10,000)
Loss Due to Misappropriation of Funds	<u>(12,232)</u>	<u>(800)</u>
Total Other Financing Sources (Uses)	<u>\$ (66,097)</u>	<u>\$ (10,800)</u>
Net Income	\$ (122,568)	\$ (6,578)
Retained Earnings -Fund Balance July 1, 1997	<u>(519,276)</u>	<u>105,877</u>
Retained Earnings -Fund Balance June 30, 1998	<u><u>\$ (641,844)</u></u>	<u><u>\$ 99,299</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF GUTHRIE
 COMBINED STATEMENT OF CASH FLOWS -ALL
PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS

Fiscal Year Ended June 30, 1998

	Proprietary Fund Types	Fiduciary Fund Types
	Enterprise	Trust and Agency Funds
<u>Cash Flows From Operating Activities:</u>		
Net Income	\$ (41,152)	\$ (707)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities-		
Depreciation	116,905	
Increase In Accounts Receivable	(14,640)	
Increase In Due From Other Funds	(32,196)	
Increase (Decrease) In Accounts Payable	(46,330)	
Increase In Accrued Payroll Taxes	4,691	
Decrease In Sales Tax Payable	(2,464)	
Increase In Customer Deposits	4,527	
Increase In Due To Other Funds	13,985	
Loss Due To Misappropriation Of Funds	(12,232)	(800)
Total Adjustments	\$ 32,246	\$ (800)
Net Cash Provided by Operating Activities	\$ (8,906)	\$ (1,507)
Cash Flows From Investing Activities:		
Increase (Decrease) of Investments	\$ 55,355	\$ (5,325)
Interest on Investments	15,138	254
Net Cash Provided by Investing Activities	\$ 70,473	\$ (5,071)
Cash Flows From Noncapital Financing Activities:		
Transfer To Other Funds	\$ (83,745)	\$
Transfer From Other Funds	16,700	
Expenses Paid For Other Funds	20,296	
Net Cash Provided (Used) by Noncapital Financing Activities	\$ (46,749)	\$ 0

The accompanying notes are an integral part of the financial statements.

CITY OF GUTHRIE
 COMBINED STATEMENT OF CASH FLOWS-ALL
 PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
 Fiscal Year Ended June 30, 1998
 (Continued)

	Proprietary Fund Types	Fiduciary Fund Types
	Enterprise	Trust and Agency Funds
<u>Cash Flows From Capital and Related Financial Activities:</u>		
Net Proceeds From Lease	\$ 237,550	\$
Interest Paid On Lease	(14,674)	
Principal Payments On Long-term Debt	(8,000)	
Interest Paid On Revenue Bonds	(15,783)	
Acquisition and Construction of Capital Assets	(182,007)	
Net Cash Used for Capital and Related Financing Activities	\$ 17,086	\$ 0
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 31,904	\$ (6,578)
Cash and Cash Equivalents -July 1, 1997	246,591	105,877
Cash and Cash Equivalents -June 30, 1998	\$ 278,495	\$ 99,299
<u>Cash and Cash Equivalents -Balance Sheet</u>		
Cash - Operating Account	\$ 17,198	\$ 1,467
Investments - Restricted		97,832
Cash - Bond Sinking Fund	2,105	
Cash - FHA Depreciation Reserves Account	3,447	
Investments - Depreciation Reserve Fund	255,745	
Cash - Retainages	\$ 278,495	\$ 99,299
<u>Supplemental Disclosure:</u>		
Cash Paid During The Year For Interest	\$ 37,318	\$ 0

The accompanying notes are an integral part of the financial statements.

CITY OF GUTHRIE
NOTES TO FINANCIAL STATEMENTS

June 30, 1998

Note 1. Summary of Significant Accounting Policies

The City of Guthrie (City), Kentucky, was incorporated as a city of the fifth class under the laws of the state of Kentucky. The City operates under a Mayor–Council form of government. In this form of government, the City is governed by an elected Mayor, an elected City Council, and by such other officers and employees provided for by statute or city ordinance. The City provides the following services: public safety (police and fire); highways and streets; cemetery maintenance; water, sewer and sanitation services; and general administrative services.

The accounting policies of the City conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard–setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies:

A. Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. These responsibilities include, but are not limited to, selection of the governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. The financial statements of the City consist only of the funds and account groups of the City.

B. Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self–balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report as follows:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

CITY OF GUTHRIE
NOTES TO FINANCIAL STATEMENTS
June 30, 1998
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Governmental Funds (Continued)

Special Revenue Fund – The Special Revenue Fund accounts for revenues derived from earmarked revenue sources. The Municipal Aid Fund is used to account for revenue received from the State of Kentucky, and expenditures from this fund are restricted to additions and improvements to the City roads. The Local Government Economic Assistance Fund (LGEA) is used to account for revenue received from the State of Kentucky, and expenditures from this fund are restricted to items improving the health, welfare, or public safety of the citizens of the City.

Proprietary Funds

Enterprise Funds – The Water Works Fund, Sewer System Fund, and Sanitation Fund are used to account for the operations of the Water and Sewer Utility and Sanitation Enterprise Funds. Enterprise Funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises – where the intent of the City is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis to be financed or recovered primarily through user charges; or (b) where the City has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Funds

Trust Fund – Trust Funds are used to account for and report resources that the City does not own, but holds in a trust capacity. Funds are received by the City to provide perpetual care for lots and graves at the cemetery. These funds are invested in savings accounts and certificates of deposit. The use of revenues derived from these investments is restricted to the furnishing of perpetual care.

Account Groups

General Fixed Asset Account Group – The account group is used to account for all fixed assets of the City, other than those accounted for in the Proprietary Funds. Public domain (“infrastructure”) general fixed assets, consisting of certain improvements other than buildings, roads, bridges, curbs, gutters, streets, sidewalks, drainage systems, and lighting systems, have not been capitalized. Such assets are normally immovable and of value only to the City; therefore, the purpose of stewardship for these items is satisfied without recording of these assets. General fixed assets have been acquired for general City purposes and, at the time of purchase, were recorded as expenditures in the General Fund. Such assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date of donation. No depreciation is recorded on general fixed assets.

CITY OF GUTHRIE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 1998
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

All proprietary funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increase (revenues) and decreases (expenditures) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Utility Plant	40 years
Equipment	10 years
Trash Compactor	20 years

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The modified accrual basis of accounting is utilized in the Governmental Fund Types. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available to finance expenditures of the current period. Property taxes are recorded as revenue when levied even though a portion of the taxes may be collected in subsequent years. All other revenues are recorded when received in cash because they are generally not measurable until actually received.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Unbilled Water Works Fund, Sewer System Fund, and Sanitation Fund service receivables are not recorded at year-end.

D. Budgeting

The City follows the procedures established by the Department for Local Government pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing budgetary data. Budgets for all funds are adopted on a basis consistent with generally accepted accounting principles, except that depreciation, certain capital expenses, non-operating income and expense items are not considered.

CITY OF GUTHRIE
NOTES TO FINANCIAL STATEMENTS
June 30, 1998
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Revenue Recognition – Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent January 1 of the following year.

Property tax revenues are recognized when they become available. “Available” includes those property tax receivables expected to be collected within sixty days after year end. Delinquent taxes are considered uncollectible a year after the levied date. An allowance for uncollectible taxes is provided to account for any amounts considered uncollectible. As of June 30, 1998, the allowance account has a balance of \$ 7,995.

F. Total Columns on Combined Statements - Overview

Total columns on the Combined Statements – Overview are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with general accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

G. Deposits

The City maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. As of June 30, 1998, the bank balances were fully insured or collateralized with securities held by a third party bank in the City’s name. As of July 1, 1997, the uncollateralized amount on deposit was \$143,270. The pledged securities and FDIC insurance did not equal or exceed the amount on deposit. In addition, the City did not have a written agreement with the depository institution.

CITY OF GUTHRIE
NOTES TO FINANCIAL STATEMENTS
June 30, 1998
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Deposits (Continued)

The City's deposits are categorized below to give an indication of the level of risk assumed by the county as of July 1, 1997. Deposits – It is the City's policy for deposits to be 100% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. The categories are described as follows:

Category 1 – Collateralized with securities held by the pledging financial institution or by its agent in the entity's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3 – Uncollateralized.

Deposits, categorized by level of risk, are:

	<u>Bank Balance</u>
Category 1 - Collateralized with securities held by the pledging financial institution or by its agent in the entity's name	\$ 620,206
Category 3 - Uncollateralized and uninsured	<u>143,270</u>
Total	<u><u>\$ 763,476</u></u>

Note 2. Fixed Assets

A summary of changes in General Fixed Assets during the reporting period:

	Balance July 1, 1997	Additions	Deletions	Balance June 30, 1998
Land	\$ 36,600	\$ 10,000	\$	\$ 46,600
Office Furniture and Equipment	20,745	584		21,329
Equipment	163,237	1,699		164,936
Buildings	88,559	12,871		101,430
Vehicles	<u>6,045</u>	<u>13,559</u>		<u>19,604</u>
Totals	<u><u>\$ 315,186</u></u>	<u><u>\$ 38,713</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 353,899</u></u>

CITY OF GUTHRIE
NOTES TO FINANCIAL STATEMENTS
June 30, 1998
(Continued)

Note 2. Fixed Assets (Continued)

A summary of changes in Proprietary Fund Assets during the reporting period:

	Balance July 1, 1997	Additions	Deletions	Balance June 30, 1998
Easements	\$ 870	\$	\$	\$ 870
Plant and Lines	4,057,519	20,456		4,077,975
Other Equipment	68,874			68,874
Trash Compactor	20,299			20,299
Construction in Progress	120,605	161,550		282,155
Totals	\$ 4,268,167	\$ 182,006	\$ 0	\$ 4,450,173
Less Accumulated Depreciation	1,696,535	116,906		1,813,441
Net Assets	<u>\$ 2,571,632</u>	<u>\$ 65,100</u>	<u>\$ 0</u>	<u>\$ 2,636,732</u>

Note 3. Long-Term Debt

Proprietary Fund:

The following is a summary of bonds payable of the City for the year ended June 30, 1998:

	Payable at July 1, 1997	Additions	Reductions	Balance June 30, 1998
1980 Series Sewer Bonds	<u>\$ 319,000</u>	<u>\$ 0</u>	<u>\$ 8,000</u>	<u>\$ 311,000</u>

1980 Series Sewer Bonds

An ordinance, adopted November 3, 1980, authorized the issuance and sale of \$394,000 of City water and sewer revenue bonds of 1980 for the purpose of financing the cost of the construction of a new sewer system. The proceeds from the sale of the bonds were supplemented by a Farmers Home Administration grant and an Environmental Protection Agency grant. The bonds, dated February 1, 1981 and numbered 1 through 394 in denominations of \$1,000 each, are due and payable annually in numerical order on February 1, 1984 through February 1, 2020, with interest of 5 percent per annum.

CITY OF GUTHRIE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 1998
 (Continued)

Note 3. Long-Term Debt (Continued)

Proprietary Fund:

The annual requirements to amortize all bonded debt outstanding as of June 30, 1998 are:

	Fiscal Year June 30	Interest	Principal	Total Payments
	1999	\$ 15,383	\$ 8,000	\$ 23,383
	2000	14,983	8,000	22,983
	2001	14,562	9,000	23,562
	2002	14,112	9,000	23,112
	2003	13,642	10,000	23,642
Remaining Principal and Interest		131,539	267,000	398,539
Totals		<u>\$ 204,221</u>	<u>\$ 311,000</u>	<u>\$ 515,221</u>

Note 4. Short-Term Debt

On June 30, 1997, the City entered into a \$300,000 loan agreement with Kentucky Area Development District (KADD) under the KADD 1996 Small Issuer's Loan Program. The loan was for the completion of the Tiny Town sewer extension. The loan is to be repaid as follows:

	Fiscal Year June 30	Interest	Principal	Total Payments
	1998	\$ 14,674	\$ 0	\$ 14,674
	1999	15,960		15,960
	2000	15,960		15,960
	2001	7,980	300,000	307,980
Totals		<u>\$ 54,574</u>	<u>\$ 300,000</u>	<u>\$ 354,574</u>

Note 5. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the City of Guthrie considers all highly liquid debt instruments (included restricted assets) purchased with a maturity of three months or less to be cash equivalents.

CITY OF GUTHRIE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 1998
 (Continued)

Note 6. Cops Grant

In May 1995, the City was awarded an Office of Community Oriented Policing Services (COPS) Grant from the U. S. Department of Justice. The award of \$40,386 is to be paid over a three-year period and is to be used to hire an additional police officer. The City is required to match the grant with \$13,762 of local money.

As of June 30, 1998, the City had received \$37,787 from the COPS Grant, with \$10,944 of that amount being received in the current year. The revenue from this grant was deposited in the General Fund and the additional expense of hiring another police officer was included in the police department expenditures.

Note 7. Compensated Absences

Employees must be full-time, permanent employees to accrue vacation leave. The vacation year is defined as the calendar year. To accrue vacation leave, the anniversary date for all employees is the first day of the calendar year following their first full calendar year of employment with the City. All full-time employees are entitled to vacation leave for a full calendar year of continuous city service at the rate of:

1-3 years	5 working days
4-9 years	10 working days
10 years or more	15 working days

It is impractical to estimate the amount of compensation for future absences, and, accordingly, no liability has been recorded in the accompanying financial statements. The City's policy is to recognize the cost of compensated absences when actually paid to employees.

Note 8. Misappropriated Funds

For the year ended June 30, 1998, the City failed to maintain adequate controls to safeguard assets, which resulted in the misappropriation of cash. The amount of cash misappropriated for each fund is listed as follows:

General Fund	\$20,901
Water Works Fund	6,668
Sewer System Fund	5,394
Cemetery Fund	<u>800</u>
Total	<u>\$33,763</u>

CITY OF GUTHRIE
NOTES TO FINANCIAL STATEMENTS
June 30, 1998
(Continued)

Note 9. Subsequent Events

On June 2, 1998, the Guthrie City Council adopted a resolution approving a lease for the financing of the Guthrie Natural Gas System project. The lease directs the trustee to invest all moneys held in the Lease Acquisition Account to complete the project as planned pursuant to the instructions of Ross, Sinclair and Associates, Inc., the program administrator. The \$720,000 lease was entered into on November 19, 1998, at an average rate of 5.37%. Payments are due and payable semi-annually on May 20 and November 20, beginning May 20, 1999 and ending November 20, 2028.

Note 10. Year 2000 Issue

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the government's operations as early as fiscal year 1999.

The City has identified one computer system and other electronic equipment that may be affected by the Year 2000 issue and that are necessary to conducting the City's operations. This system has completed the remediation phase and is in the validation\testing phase. The validation\testing is to be completed by in-house staff; therefore, there are no outside contracted amounts for this project as of June 30, 1998.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Management cannot assure that the City is or will be Year 2000 ready, nor that the City's remediation efforts will be successful in whole or in part, or that parties with whom the City does business will be Year 2000 ready.

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SUPPLEMENTAL INFORMATION

CITY OF GUTHRIE
SCHEDULE OF CURRENT EXPENDITURES
BY DEPARTMENT-GENERAL FUND

Fiscal Year Ended June 30, 1998

<u>Categories</u>	<u>Administration</u>	<u>Police</u>	<u>Fire</u>	<u>Street</u>	<u>Totals</u>
Salaries:					
Salaries and Wages	\$ 26,797	\$ 117,897	\$	\$	\$ 144,694
Employee Benefits	36,226	4,816			41,042
Travel/Training	2,595	2,184			4,779
Office Supplies	8,640				8,640
Other Supplies	2,748	4,424	3,926		11,098
Janitorial Supplies	1,784				1,784
Equipment Maintenance	16,137	250			16,387
Dues and Subscriptions	361				361
Advertising and Printing	1,232	14			1,246
Vehicle Maintenance/Repair		4,922	1,479		6,401
Motor Fuel		4,989			4,989
Professional Services	5,139				5,139
PVA for Tax Assessments	250				250
Insurance	24,382				24,382
Telephone	7,198	2,485	313		9,996
Utilities	17,865		2,282	1,052	21,199
Planning Commission	6,000				6,000
Dispatching		2,841			2,841
Street Improvement Materials				956	956
Contractual Services	800			750	1,550
Contributions	4,055		2,500		6,555
Miscellaneous	9,767	2,652	21	92	12,532
Totals	<u>\$ 171,976</u>	<u>\$ 147,474</u>	<u>\$ 10,521</u>	<u>\$ 2,850</u>	<u>\$ 332,821</u>

CITY OF GUTHRIE
 COMBINING STATEMENT OF REVENUE, EXPENDITURES,
 AND CHANGES IN FUND BALANCES – SPECIAL REVENUE FUNDS

Fiscal Year Ended June 30, 1998

<u>Revenues</u>	Local Government		<u>Totals</u>
	<u>Municipal Aid</u>	<u>Economic Assistance Fund</u>	
State of Kentucky	\$ 25,401	\$ 844	\$ 26,245
Interest Income	154		154
Total Revenues	<u>\$ 25,555</u>	<u>\$ 844</u>	<u>\$ 26,399</u>
<u>Expenditures</u>			
Current:			
Street Maintenance			
and Paving	\$ 3,385	\$	\$ 3,385
Equipment Maintenance	253		253
Landscaping	184		184
Miscellaneous	103		103
Fire Protection		844	844
Total Expenditures	<u>\$ 3,925</u>	<u>\$ 844</u>	<u>\$ 4,769</u>
Excess of Revenue			
Over (Under)			
Expenditures	\$ 21,630	\$	\$ 21,630
Fund Balance July 1, 1997	<u>26,048</u>		<u>\$ 26,048</u>
Fund Balance June 30, 1998	<u>\$ 47,678</u>	<u>\$ 0</u>	<u>\$ 47,678</u>

CITY OF GUTHRIE
COMBINING BALANCE SHEET - PROPRIETARY FUND TYPES

June 30, 1998

<u>Assets</u>	<u>Water Works Fund</u>	<u>Sewer System Fund</u>	<u>Sanitation Fund</u>	<u>Totals (Memorandum Only)</u>
Current Assets:				
Cash	\$ 6,434	\$ 10,074	\$ 690	\$ 17,198
Accounts Receivable	13,675	15,360	5,034	34,069
Other Receivables	1,776	1,722	16	3,514
Claims Filed/Bonding Company	2,083	3,502		5,585
Due from Other Funds	15,000	20,496	4,110	39,606
Total Current Assets	<u>\$ 38,968</u>	<u>\$ 51,154</u>	<u>\$ 9,850</u>	<u>\$ 99,972</u>
Restricted Assets:				
Bonds Sinking Fund				
Cash	\$	\$ 2,105	\$	\$ 2,105
Interest Receivable	469			469
Depreciation Fund -				
Cash	3,447			3,447
Investments	134,632	121,113		255,745
Total Restricted Assets	<u>\$ 138,548</u>	<u>\$ 123,218</u>	<u>\$ 0</u>	<u>\$ 261,766</u>
Fixed Assets:				
Easements	\$	\$ 870	\$	\$ 870
Plant and Lines	770,145	3,307,830		4,077,975
Equipment	40,428	28,446		68,874
Trash Compactor		20,299		20,299
Construction in Progress		282,155		282,155
Total Fixed Assets	<u>\$ 810,573</u>	<u>\$ 3,639,600</u>	<u>\$</u>	<u>\$ 4,450,173</u>
Less Accumulated Depreciation	<u>472,905</u>	<u>1,340,536</u>		<u>1,813,441</u>
Net Fixed Assets	<u>\$ 337,668</u>	<u>\$ 2,299,064</u>	<u>\$ 0</u>	<u>\$ 2,636,732</u>
Total Assets	<u>\$ 515,184</u>	<u>\$ 2,473,436</u>	<u>\$ 9,850</u>	<u>\$ 2,998,470</u>

CITY OF GUTHRIE
 COMBINING BALANCE SHEET - PROPRIETARY
 FUND TYPES
 June 30, 1998
 (Continued)

<u>Liabilities</u>	<u>Water Works Fund</u>	<u>Sewer System Fund</u>	<u>Sanitation Fund</u>	<u>Totals (Memorandum Only)</u>
Current Liabilities: (Payable from Current Assets)				
Accounts Payable	\$ 104	\$ 52	\$ 62	\$ 218
Payroll Taxes	6,137	1,620	143	7,900
Sales Tax	351	(2,465)		(2,114)
Customer Deposits	59,586			59,586
Due To Other Funds	12,700	13,252		25,952
Totals	<u>\$ 78,878</u>	<u>\$ 12,459</u>	<u>\$ 205</u>	<u>\$ 91,542</u>
Current Liabilities (Payable from Restricted Assets):				
Revenue Bonds Payable	\$	\$ 8,000	\$	\$ 8,000
Accrued Interest on Bond Indebtedness		6,479		6,479
Totals	\$	\$ 14,479	\$	\$ 14,479
Total Current Liabilities	<u>\$ 78,878</u>	<u>\$ 26,938</u>	<u>\$ 205</u>	<u>\$ 106,021</u>
Long-Term Liabilities: Kentucky Area Development				
Capital Lease	\$	\$ 300,000	\$	\$ 300,000
Revenue Bonds Payable		303,000		303,000
Total	<u>\$</u>	<u>\$ 603,000</u>	<u>\$</u>	<u>\$ 603,000</u>
Total Liabilities	<u>\$ 78,878</u>	<u>\$ 629,938</u>	<u>\$ 205</u>	<u>\$ 709,021</u>

CITY OF GUTHRIE
 COMBINING BALANCE SHEET - PROPRIETARY
 FUND TYPES
 June 30, 1998
 (Continued)

<u>Fund Equity</u>	<u>Water Works Fund</u>	<u>Sewer System Fund</u>	<u>Sanitation Fund</u>	<u>Totals (Memorandum Only)</u>
Contributed Capital:				
Grants in Aid of Construction	\$	\$ 2,931,293	\$	\$ 2,931,293
Retained Earnings:				
Reserved-				
Bond Sinking Fund		(947,547)		(947,547)
Depreciation Fund	159,347	53,567		212,914
Unreserved	<u>276,959</u>	<u>(193,815)</u>	<u>9,645</u>	<u>92,789</u>
Total Fund Equity	<u>\$ 436,306</u>	<u>\$ 1,843,498</u>	<u>\$ 9,645</u>	<u>\$ 2,289,449</u>
Total Liabilities and Fund Equity	<u>\$ 515,184</u>	<u>\$ 2,473,436</u>	<u>\$ 9,850</u>	<u>\$ 2,998,470</u>

CITY OF GUTHRIE
 COMBINING STATEMENT OF REVENUE, EXPENSES,
 AND CHANGES IN RETAINED EARNINGS – ALL
PROPRIETARY FUND TYPES – UNRESERVED FUNDS

Fiscal Year Ended June 30, 1998

	Water Works Fund	Sewer System Fund	Sanitation Fund	Totals (Memorandum Only)
<u>Operating Revenues</u>				
Charges for Services	\$ 155,108	\$ 160,913	\$ 56,880	\$ 372,901
Tap-on Fees	1,800	2,750		4,550
Sale of Bulk Water	972			972
Sprinkler Charges	441			441
Other Revenue	1,533	200		1,733
Sanitation Fees			1,998	1,998
Total Revenues	<u>\$ 159,854</u>	<u>\$ 163,863</u>	<u>\$ 58,878</u>	<u>\$ 382,595</u>
<u>Operating Expenditures</u>				
Salaries and Wages	\$ 79,898	\$ 45,121	\$ 2,600	\$ 127,619
Employee Benefits	5,608	7,534		13,142
Advertising Expense	467			467
Professional Services	1,845			1,845
Well Lease	460			460
Gas and Oil	1,899	3,365		5,264
Office Supplies	2,873	1,200		4,073
Dues and Publications	249			249
Materials and Supplies	936	1,134	1,599	3,669
Chemicals	4,890	158		5,048
Lab Testing and Supplies	1,226	4,903		6,129
Insurance	102			102
Maintenance and Repairs	29,194	15,547		44,741
Landfill Charges/Garbage Disposal		1,446	52,846	54,292
Contractual Services	1,233			1,233
Utilities	8,625	14,408	720	23,753
Education/Training	951	347		1,298
Travel	44			44
Other Expenses	2,190	11,224		13,414
Unallowable Expenditures	6,408	5,824		12,232
Depreciation	23,296			23,296
Total Operating Expenditures	<u>\$ 172,394</u>	<u>\$ 112,211</u>	<u>\$ 57,765</u>	<u>\$ 342,370</u>
Operating Income	<u>\$ (12,540)</u>	<u>\$ 51,652</u>	<u>\$ 1,113</u>	<u>\$ 40,225</u>

CITY OF GUTHRIE
 COMBINING STATEMENT OF REVENUE, EXPENSES
 AND CHANGES IN RETAINED EARNINGS – ALL
 PROPRIETARY FUND TYPES – UNRESERVED FUNDS
 Fiscal Year Ended June 30, 1998
 (Continued)

<u>Nonoperating Revenues</u>	<u>Water Works Fund</u>	<u>Sewer System Fund</u>	<u>Sanitation Fund</u>	<u>Totals (Memorandum Only)</u>
Interest	\$	\$ 5,095	\$	\$ 5,095
Total Nonoperating Revenues	\$	\$ 5,095	\$	\$ 5,095
Income (Loss) Before Operating Transfers	\$ (12,540)	\$ 56,747	\$ 1,113	\$ 45,320
Other Financing Sources (Uses):				
Transfer to Sinking Fund - Capital Expenditures	\$ (20,456)	\$ (161,550)	\$	\$ (182,006)
Transfer to Sinking Fund		(40,567)		(40,567)
Transfer to Depreciation Fund	(5,700)			(5,700)
Transfer to Municipal Road Aid	(100)	(100)		(200)
Transfer to General Fund	(7,145)	(60,500)		(67,645)
Transfer from General Fund	11,000	5,200		16,200
Transfer from Water Depreciation Fund	17,176			17,176
Transfer from Sewer Sinking Fund			4,500	4,500
Transfer from Municipal Road Aid		500		500
Expenses Paid for Other Funds		17,053	4,012	21,065
Total Other Financing Sources (Uses)	\$ (5,225)	\$ (239,964)	\$ 8,512	\$ (236,677)
Net Income	(17,765)	(183,217)	9,625	(191,357)
Retained Earnings July 1, 1997	294,724	(10,598)	20	284,146
Retained Earnings June 30, 1998	\$ 276,959	\$ (193,815)	\$ 9,645	\$ 92,789

CITY OF GUTHRIE
 COMBINING STATEMENT OF REVENUE, EXPENSES, AND
CHANGES IN RETAINED EARNINGS – WATER WORKS SYSTEM - RESERVED FUNDS

For The Fiscal Year Ended June 30, 1998

<u>Revenues</u>	Depreciation Fund
Interest Income	\$ 7,106
Total Revenues	\$ 7,106
<u>Expenses</u>	\$ 0
Income (Loss) Before Operating Transfers	\$ 7,106
Other Financing Sources (Uses):	
Transfer to Operations and Maintenance Fund - Capital Expenditures	\$ 20,456
Transfer from Operations and Maintenance Fund	5,700
Transfer to Water Fund	(17,176)
Transfer to General Fund	(9,000)
Total Other Financing Sources (Uses)	\$ (20)
Net Income (Loss)	\$ 7,086
Retained Earnings - July 1, 1997	152,261
Retained Earnings - June 30, 1998	\$ 159,347

CITY OF GUTHRIE
 COMBINING STATEMENT OF REVENUE,
 EXPENSES, AND CHANGES IN RETAINED EARNINGS-SEWER
SYSTEM - RESERVED FUNDS

Fiscal Year Ended June 30, 1998

<u>Revenues</u>	<u>Sinking Fund</u>	<u>Depreciation Fund</u>
Interest Income	\$ 127	\$ 2,810
Total Revenues	<u>\$ 127</u>	<u>\$ 2,810</u>
<u>Expenses</u>		
Depreciation	\$ 93,609	\$
Interest Expense	<u>30,457</u>	
Total Expenses	<u>\$ 124,066</u>	<u>\$ 0</u>
Income (Loss) Before Operating Transfers	<u>\$ (123,939)</u>	<u>\$ 2,810</u>
Other Financing Sources (Uses):		
Capital Expenditures by	\$	\$
Operations and Maintenance Fund	161,550	
Transfer From Operations and Maintenance Fund	40,567	
Transfer to Operations and Maintenance	(4,500)	
Transfer to General Fund	<u>(6,900)</u>	
Total Other Financing Sources (Uses)	<u>\$ 190,717</u>	<u>\$ 0</u>
Net Income (Loss)	\$ 66,778	\$ 2,810
Retained Earnings - July 1, 1997	<u>\$ (1,014,325)</u>	<u>50,757</u>
Retained Earnings - June 30, 1998	<u><u>\$ (947,547)</u></u>	<u><u>\$ 53,567</u></u>

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COMMENTS AND RECOMMENDATIONS

CITY OF GUTHRIE
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 1998

CURRENT YEAR FINDINGS

1) The City Should Have Required Depository Institutions To Pledge Additional Securities Of \$143,270 As Collateral And Entered Into A Written Agreement To Protect Deposits

The City's deposits were adequately secured as of June 30, 1998. However, during the month of July 1997, the city had uncollateralized funds totaling \$143,270. Under the provisions of KRS 66.480(1)(d) and KRS 41.240(4), banks are required to provide pledges of securities for time savings and demand deposits if either exceeds the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation. The city should require the depository institution to pledge sufficient securities as collateral to insure deposits at all times. We also recommend the city enter into a written agreement with the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Management's Response:

I have contacted Ed Stack at the Elkton Bank and Trust Co. and will arrange to have all funds secured in writing.

2) The City Failed To Maintain Adequate Controls To Safeguard Assets

The City failed to maintain adequate controls to safeguard assets resulting in the misappropriation thereof. There was no segregation of duties with regard to the employee performing cash receipts and disbursements functions. Check preparation and signing was initiated and completed by one employee, with no review or approval from an individual independent of those duties. Based on our previous report, total misappropriated funds for fiscal years 1997 and 1998 were \$69,409. Our current financial statements include misappropriated cash for each fund as follows:

General Fund	\$20,901
Water Works Fund	6,668
Sewer System Fund	5,394
Cemetery Fund	<u>800</u>
Total	<u>\$33,763</u>

Management's Response:

The misappropriated funds were the actions of a former clerk. She has been relieved of her duties and has made restitution through Todd County Circuit Court.

CITY OF GUTHRIE
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 1998
(Continued)

3) The City Should Follow Proper Bidding Procedures.

KRS 45A.343 – KRS 45A.460 permits a city to adopt the Model Procurement Code for governing purchasing procedures. We were unable to determine that the City had adopted the code. KRS 424.260 requires all cities not under the Model Procurement Code to advertise for bids all nonperishable supplies and all nonprofessional services in excess of \$10,000. Purchases over \$10,000 may be made through state price contracts without bidding. Also purchases under \$10,000 should follow small purchase procedures. We noted that the City entered into a lease for a police car for \$13,559. The City indicated that this purchase was made under the state price contract; however, the vendor was not the vendor who held the state price contract. We recommend the City make sure what vendor holds the state price contract in the future and that they purchase only from that vendor or properly advertise for bids as provided for in KRS 424.260.

Management's Response:

Currently our attorney advises against a procurement code. We are now "online" and will check vendors against state contract list for confirmation.

4) The City Should Discontinue The Practice Of Making Loans To Employees

KRS 61.250 – 61.280 prohibits any city "officer" to be interested in any contract with the city or doing any work or furnishing any supplies. This would include receiving loans from the City. It was noted during the audit that making loans to various individuals was a common practice. The former City Clerk received an unauthorized loan of \$2,000 and the Mayor was paying the City for the purchase of two guns, which were purchased by the City. We recommend this practice be discontinued.

Management's Response:

Done – this practice was done unknowingly. Has been discontinued.

5) The City Should Reimburse The Municipal Aid Fund For General Operating Expenses

KRS 177.369 requires municipal aid funds to be expended solely for road and streets. There was \$37,832 transferred to other funds during the fiscal year ending June 30, 1998. Only \$500 of this was returned to the Municipal Road Aid Fund and \$2,850 was expended for streets in the General Fund. Therefore, \$34,482 appears to have been spent on general operating expenses. We recommend the Municipal Road Aid Fund be reimbursed for these expenditures.

Management's Response:

This will be refunded upon receipt of monies from bonding company.

CITY OF GUTHRIE
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 1998
(Continued)

6) The City Should File The Uniform Financial Information Report In A Timely Manner

KRS 65.905 requires all cities, counties, and special taxing districts to annually complete a uniform financial information report and submit the report to the Department for Local Government by February 1 following the close of the fiscal year. This was not performed for the fiscal year ending June 30, 1997. However, the report was completed after the February 1 date for fiscal year ending June 30, 1998.

Management's Response:

Due to the confusion in the Clerk's office this was an oversight. I have spoken with Department of Local Government and will correct as soon as possible.

7) The City Should Maintain Proper Accounting Records That Will Produce a Complete Set of Financial Statements

During our audit, a significant amount of time (approximately 60 hours) was spent reclassifying and posting accounting information. Another 40 hours was spent reconciling the balances from the previous audit to your system. It appears adjustments were made to the system, which did not agree to the audit report. Some items could not be reconciled. In the future, no one should make entries to your system except for the clerks. Any adjustments, accruals, or corrections can be provided to the clerk for entry. Also, the accounting system should be set up to reflect the accounts as they are budgeted. At the present time, it is impossible to determine if a particular account or fund is being overspent. It is understood that the present clerk is in the process of correcting this. Also, the system allows you to design your own financial statements. It would be wise to have this done, rather than using the standard forms provided by the computer. When the auditor arrives to audit, the City should be able to provide a complete set of financial statements. This would significantly reduce audit time and therefore audit cost. It should also make the system less susceptible to manipulation.

Management's Response:

Our City Clerk, Faye Shamblin is an experienced accountant and is working to establish more concise reports.

CITY OF GUTHRIE
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 1998
(Continued)

8) The City Should Improve Its Policies and Procedures To Improve Controls Over The City's Operations

Based on our observation of the City's operations, we recommend:

- The City should begin a purchase order system using pre-numbered purchase order forms for authorization of all purchases. These should be presented to the City Council each month and approved prior to payment.

Management's Response:

This has been done using our Quickbooks Pro System.

- The City should issue pre-numbered receipts (in triplicate) for all funds received. One copy should be given to the customer, one copy batched daily with a daily checkout sheet, and one copy should remain in the receipt book.

Management's Response:

This has been done.

- All receipts should be deposited daily and the total deposit should agree to the daily checkout sheet.

Management's Response:

This has been done.

- No documents should be signed until they are complete, such as checks, purchase orders, leave slips, and overtime requests.

Management's Response:

This has been done.

- The City needs to establish written personnel policies. It needs to improve the employee payroll records. These records should include signed timecards, approved leave slips, and approved overtime authorization slips, W-4s, and K-4s for all employees.

Management's Response:

This has been done and approved by the City Council.

CITY OF GUTHRIE
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 1998
(Continued)

8) The City Should Improve Its Policies and Procedures To Improve Controls Over The City's Operations (Continued)

- The City Clerk should present a detailed monthly report to the City Council. This should include a bank reconciliation, which agrees to the report. These documents should be approved by the Council and should be recorded in the minutes.

Management's Response:

This has been done.

PRIOR YEAR FINDINGS

The City Failed To Maintain Adequate Controls To Safeguard Assets

The City failed to maintain adequate controls to safeguard assets, resulting in the misappropriation of assets. There was no segregation of duties with regard to the employee performing cash receipts and disbursements functions. Check preparation and signing was initiated and completed by one employee, with no review or approval from an individual independent of those duties.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable Scott Marshall, Mayor
Members of the Guthrie City Council

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the City of Guthrie, Kentucky, as of and for the year ended, June 30, 1998, and have issued our report thereon dated May 14, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Guthrie's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying Comments and Recommendations.

- The City Should Have Required Depository Institutions To Pledge Additional Securities Of \$143,270 As Collateral And Entered Into A Written Agreement To Protect Deposits
- The City Should Follow Proper Bidding Procedures
- The City Should Reimburse The Municipal Aid Fund For General Operating Expenses

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Guthrie's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Guthrie's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Comments and Recommendations.

- The City Failed To Maintain Adequate Controls To Safeguard Assets

Honorable Scott Marshall, Mayor
Members of the Guthrie City Council
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions listed above and described in the accompanying Comments and Recommendations to be material weaknesses.

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 14, 1999

CERTIFICATION OF COMPLIANCE – LOCAL
GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

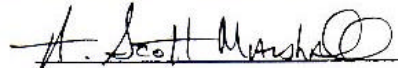
CITY OF GUTHRIE

Fiscal Year Ended June 30, 1998

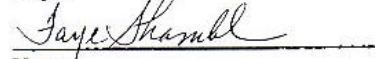
Appendix A

CERTIFICATON OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
CITY OF GUTHRIE, KENTUCKY
Fiscal Year Ended June 30, 1998

The City of Guthrie, Kentucky hereby certifies that assistance received from the Local Government Economic Assistance Fund was expended for the purpose intended, as dictated by the applicable Kentucky Revised Statutes.


Name

Mayor


Name

City Clerk